

parliamentary supervision over

State Undertakings

Being the report of the Sub-committee  
of the congress party in parliament

Does the Party apparatus contribute to the Policy Making Functions of Government? The Report is a pointer in that direction. The Party certainly has an inherent right to contribute towards policy formulation. The best way to do so seems to be for Party Members to be alert and vigilant, so that when any particular problem arises, they have already studied its implications and given serious thought to it. Such an attempt has been made by this Committee on State Undertakings. It deserves the attention of all Members of the Party.

The Report is well drafted. Lucid in style, it touches all aspects of the problem. The subject-matter has added to the importance of the Report. The public sector is destined to play an increasingly important role in economy of the country. It is time that we should be more vigilant over each of the unit in the public sector and try to improve it from the point of view of production, efficiency and accountability.

We may point out that there are no clear-cut recommendations enumerated as such in the Report. It does not aim to be the final work on the subject; rather it gives a start to the discussion on a subject of importance.

The Congress Party has decided to publish the Report with a view to making it available to Members of the Party and also the public. The Report has already attracted attention in the Press.

## I

The Prime Minister appointed a Sub-Committee of the Party on the 10th April 1958 to consider the problems relating to State-owned Corporations and Companies and to suggest how a broad supervision may be maintained by Parliament without interference in the day-to-day activities of the concerns.

2. The letter issued over the signature of the Prime Minister in this regard is reproduced below :

“At a meeting of the Executive Committee of the Congress Party in Parliament this morning, the question of parliamentary supervision over statutory Corporations and other State owned bodies was discussed. It was felt that before this matter is discussed in Parliament or any proposal is put forward formally, the matter should be considered fully by a Sub-Committee of the Party. The Leader was asked to constitute such a Sub-Committee. It was suggested that Shri V.K. Krishna Menon might be the Chairman of this Sub-Committee and that the number of members might be seven. On further consideration it was decided that the number of members of this Sub-Committee might be ten, including the Chairman.

“I am, therefore, appointing a Sub-Committee consisting of the following persons:

1. Shri Feroze Gandhi
2. Shri Mahavir Tyagi
3. Dr. P. Subbarayan
4. Prof. N.G. Ranga
5. Shri N.C. Kasliwal
6. Shri H.C. Dasappa
7. Shri Jaswantraj Mehta
8. Shri R.R. Morarka
9. Shri T.N. Singh (Convener)
10. Shri V.K. Krishna Menon Chairman

“The Committee will consider various types of State-owned Corporations, Companies, etc. and suggest how a broad supervision may be maintained

over their activities by Parliament, without any interference in their day-to-day activities. The Committee will report to me and I shall place their report before the Executive Committee of the Party for consideration."

*Sd./- J. Nehru*

10 April, 1958.

The Prime Minister also suggested that the Sub-Committee may invite the co-operation of the Minister of Commerce and Industry and the Minister of Steel, Mines and Fuel.

3. **Terms of Reference :** It cannot be said that any specific terms of reference other than those contained in the last paragraph of the Prime Minister's letter set out above had been laid down. In their preliminary discussions, which covered several meetings, the Sub-Committee concluded that they were required to consider broadly the arrangements which at present obtain in Government industrial undertakings and make recommendations.

4. Shri T.N. Singh who was Convener of the Sub-Committee resigned from the Parliamentary Congress Party on being appointed as Member of the Planning Commission. We regret that his membership of this Sub-Committee lapsed in consequence. The Sub-Committee would like to place on record their great appreciation of the invaluable assistance rendered by Shri T.N. Singh as Convener. He worked with great zeal and devotion and spent a good deal of his time in making discussions in the Sub-Committee stimulating and purposeful. He has been to a great extent responsible for bringing up, and getting discussed many of the points made in this Report. Shri Feroze Gandhi was chosen as Convener and he was good enough to agree. His colleagues owe a debt of gratitude to him for his devoted efforts in the studies we pursued.

5. Public enterprises (Corporations and State-owned bodies) in India fall broadly under the following \*categories:

- (a) The State Banks
- (b) Statutory Corporations
- (c) Departmental Undertakings
- (d) Control Boards

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\* A full list is set out in Appendix A.

- ✓ (e) Commodity Boards
- ✗ (f) Commissions
- ✗ (g) Port Trusts and Local Authorities; and
- (h) Limited Companies (Private).

6. The Sub-Committee considered that (a), (e), (f) and (g) did not, in any case, come under the purview of their present examination. Of the remainder, (b)—Statutory Corporations, are covered by special Statutes which either established or incorporated them. They are at present governed by Statutes and are not within the purview of the Company Law. While they are not Companies, they are business undertakings producing goods or services and are owned and managed by the State. They, therefore, come within the scope of the Sub-Committee. For purposes of the present enquiry we have considered that, on the whole, their existing internal arrangements are basically satisfactory, but that for purposes of accountability to Parliament, they should be treated in the same way as other State-owned enterprises, and not like departmental concerns on the one hand or like (a), (e), (f) and (g) on the other. Such Corporations should be considered seriatim as the diversity not only of their form but of their functions and purposes is great. These Corporations, for the most part, have also the advantage of being older and therefore, not only of law, but also of the conventions that govern them and, their conduct in regard both to their internal management and the relations between them and Government and in respect of Parliamentary desires for information or control. We may, therefore, well leave detailed consideration of them alone for the present.

7. So far as Departmental Undertakings—(c) —are concerned—there again there are several categories. The largest of them is the Railway Undertaking. This includes Chittaranjan and the Integral Coach Works at Perambur. While most of the considerations in regard to efficiency and accountability would equally apply to these factories, certain special procedures in regard to the examination of the reports of their work by Parliament will have to be adopted or accepted as a convention. The Sub-Committee do not propose to consider the Railway Undertaking except to draw from its working such experience as may be valuable in the consideration of the general problem. The other large group of departmental undertakings are Defence Establishments which consist of Ordnance Factories and of still another category, Maintenance Establishments inside the Armed Forces themselves. The Sub-Committee

considers that these are a category apart and the recommendations and considerations in this report cannot apply to them. So far as Parliamentary control is concerned, the present arrangements must continue to apply to them.

8. There are two concerns about which special mention must be made. They are Hindustan Aircraft Ltd. (H.A.L.) and Bharat Electronics Ltd. (B.E.L.) in Bangalore. These are, in form, companies under the Companies Act and were so established, but their main customers are the Government and, that too, mostly in the Defence Department and, in small measure, in the Railways. These establishments function, as they must, under security conditions and to some extent their working cannot be altogether exposed to public view—even though they are not secret factories. Their developmental aspects calling for secret processes, and often infructuous expenditures but which are vital to the Nation, must be taken into account in any review of them. They are in fact Defence Factories. Often costs alone cannot be the criterion of production in these places. In form, however, they are Private Companies, which form is intended to give them some advantages of flexibility of administration. The present arrangements, we are informed, are not altogether found satisfactory to meet the conditions and requirements of Defence. During our discussions it was generally agreed that while they should be in the same category as Companies, we should regard these two Establishments in the same way as their character as Defence Factories would require their being dealt with under procedures which would be more appropriate to them. To these two concerns, however, would apply most of the considerations that have been set out in paragraph 9 below although procedures which will protect aspects of their working in the national interest should be provided for.

9. The accountability of departmental undertakings to Parliament is complete, their management being directly under the Ministry concerned. The Minister has as much responsibility for them as he has in regard to the administration of his Ministry through which he functions in respect of the establishments. These undertakings produce largely, if not entirely, for the State itself. Often, and more particularly in emergencies or preparations for them, they cannot be thought of in terms of profit and loss. In normal times they suffer very much from the rigidity of departmental control in regard to procedures and labour under enormous restrictions. In enterprises concerned with production for public consumption, such production has to meet competition, either in fact, or in any calculations. If the community as a whole is

not to carry heavier burdens, restrictions on initiative, enthusiasm and the methods which would well strangle any commercial enterprise must undergo modification.

#### **10. Main defects of Government Departmental Organisation :**

Some of the limitations in having a purely departmental form of management may be set out as follows:

- (a) Permanent staff is subject to rules and regulations applicable to Civil Servants, thereby preventing both promotion on merit and prompt disciplinary action where necessary ;
- (b) Tardy procedures for arranging funds, *e.g.*, the necessity for obtaining sanctions for expenditure and other matters in every single case;
- (c) Cash receipts have to be put into Government account and cannot be taken out without special sanction;
- (d) The system of accounting; and
- (e) The departmental methods of purchase of raw materials, and sale of products, and so on.

11. These, however, to a certain extent should be avoided even in departmental concerns. But the only way to minimise them to the necessary extent would be to give them complete internal autonomy in finance as in the Railways. This may not always be possible in all other State-owned enterprises, but other methods of flexibility have to be found. It was hoped that this would be possible in the company form of management. This was why the Company form was adopted for certain Government enterprises.

12. Unless there is greater autonomy and flexibility in procedures as are sought to be set out in this Report, the company form of management for State enterprises has little value. There is a school of opinion that has favoured departmental management in respect of all Government concerns. Here it may be added that abroad also, Finance Ministers have taken similar views, while the Administrative Ministry has taken the opposite view strongly. Here, Shri C.D. Deshmukh, then Finance Minister, said:

“So far as business or industrial undertakings owned wholly by the State are concerned, as they are likely to function as State enterprises indefinitely

in future, I see no particular advantage in adopting the company form of management. Indeed, it may be argued, not perhaps altogether without reason, that in such cases the company form masks true character of these undertakings, blurs the line of demarcation between internal autonomy of the undertaking on the one hand, and the authority of the Executive Government and of Parliament on the other, and to that extent needlessly complicates the already difficult issue of Parliamentary control over State-owned undertakings . . . . So far as wholly State-owned undertakings are concerned, I am therefore in favour of the statutory corporation of the U.K. type."

13. There is, however, a field in which more departmentalisation may—we say *may* advisedly—be warranted. This will apply to the whole field of an industry. For example, there may be a Steel Corporation or Commission, which owns the Steel Companies. Such a Corporation may come under the class of Corporations which we have not discussed in detail here. They may be constituted as Commissions in which case such a body would not be amenable to the procedures we have proposed. Such Corporations or Commissions may be either departmental and concerned only with questions of wide policy, starting of new concerns under them, export, planning, control, protection policies, and large schemes of research and development etc. On such Corporations, the Chairmen of Boards and high level technicians of the "constituent" concerns (companies) would be represented and the Minister would be the Chairman. Such Corporations are not business undertakings.

## II

### HISTORY

14. State or Government control or ownership of certain categories of production is very old, if not ancient. The Mint and, later, the Postal system in most countries have been under the control of Kings or Governments from very early times although both private coinage and private carriership were by no means uncommon in earlier societies. Government ownership has often come about in the world either by the desire of Government to regulate and restrain services or products or for political reasons or ends. Such was the case when the carrying of mail was taken over by Queen Elizabeth in England.

15. In India, the Railways, present a good example. They became State-owned under British rule. The British Government of the day was not



tinged with any socialist notions. Originally Railways were company-owned, that is to say, owned by British companies whose profits were guaranteed by the Government of India and therefore on its revenues. Both the British Indian Administration and Public opinion of the day became more and more concerned and articulate about their mismanagement or lack of efficiency. As a remedial measure, the Railway Companies were taken over one by one by the British Indian Government and today it is our largest State undertaking.

16. In post-Independence India also Government control has come about largely on account of its industrial-economic implications, but partly because we are a new and large democracy. Also, neither the resources and the expertise nor the political authority required vest anywhere except in Government. If large concerns like our heavy industrial enterprises and other pioneering projects were to be established and foreign assistance secured on terms which are favourable and not politically disadvantageous or economically undesirable the State alone can do so. The present enquiry is by no means due to a sudden recognition of any aspect of the problem. It may have partly arisen as a result of the recent controversy in regard to the affairs of the Life Insurance Corporation which drew pointed attention to the factors both of accountability and efficiency in respect of Government concerns.

17. At the same time, this very enquiry has shown that the real problem did not centre so much around the law that governed the concern but on various other factors. The financing of enterprises by Government has invoked as its counterpart, in the context of our Parliamentary democracy and of general public interest, vigilance and responsibility for public finances by Parliament on the one hand and the desire for their management by Government on the other which would make them amenable to questioning in Parliament. These have lent colour and substance to the problem. Enquiries and agitations have not, however, been confined to State-owned companies alone.

18. It may be recalled that there was a full debate in the Lok Sabha in December 1953 on a private Member's Bill "The Public Financed Industries Control Board Bill, 1954" (November) and resolution were submitted or adopted in Parliament.

19. The Estimates Committee in their 16th Report also dealt with this question at length. The Public Accounts Committee has often drawn attention to the various problems and made observations relevant to this issue. The

late Speaker, Shri S.G.V. Mavlankar, addressed a letter to the Prime Minister, relevant extracts from which are appropriate for quotation here :—

“During the recent debate in the House on Parliamentary control over autonomous and semi-autonomous corporations, etc. there was a general feeling that a standing Parliamentary Committee might be appointed to see from time to time how these corporations, etc. were working and to make suggestions for improvements. Subsequently, I received a letter by 15 members suggesting that I should consider the question of the appointment of such a Committee. It appears that the Finance Minister was agreeable in principle to the appointment of such a Committee.

“I referred the letter to the members of the Rules Committee for their consideration. The Rules Committee have suggested that there is no harm if a separate Committee is appointed with limited functions, such as to examine reports and the working of such bodies after the reports are presented to or are otherwise circulated to members and on matters concerning their organisation, working and administration. The proposed committee will not go into the problems of day-to-day administration of such Corporations, but would only consider questions of policy and their working broadly.

“It is conceded that Parliament should have sufficient control over such bodies. The question is only how it should be ensured. To my mind, asking of questions or raising discussions on the working of such bodies by the whole House is neither desirable nor practicable. The Corporations must be left free in their day-to-day administration and Ministers should not be called upon to answer detailed questions or discussions in the House except on such occasions when questions of some general policy have to be raised or discussed. It is also clear that the Estimates and the Public Accounts Committees are already overburdened with the work assigned to them and find very little time to go into the working of Corporations. I have also other practical difficulties. Members are tabling a large number of questions, resolutions, and giving notices of discussions relating to these Corporations. At present they are disallowed on the plea that as these Corporations have their own constitutions and have a certain amount of autonomy, various Ministers are not directly concerned with detailed aspects of the matter and therefore they should not be

called upon to answer them in the House. A large number of notices are therefore disallowed and this is causing an avoidable dissatisfaction among the Members. A via media has to be found whereby Members are made to feel that their legitimate grievances are not being throttled and there are safeguards from the Parliamentary point of view.

“As the matter has cropped up several times in the House and there is a feeling about it, I see no harm in agreeing to the recommendation of the Rules Committee for the constitution of a separate Committee on autonomous bodies with functions specified in para. 2 above. The Committee will of course work under my directions and it will be my effort to see that they do not stray beyond the functions assigned to them; or cause day-to-day interference.”

20. The late Speaker's letter, although it may not have been intended to cover all aspects of this issue, deals with the essentials of the problem. The same basic issues were well set out before the British House of Common by Mr. Herbert Morrison, M.P., when he was Minister of Transport, and spoke about the entry of Government into the business field that it should combine “public ownership, public accountability and business management for public ends.”

### III

#### THE PROBLEM

21. In the problems we are considering, (1) Accountability on the one hand and (2) Efficiency on the other, are much in conflict and have to be reconciled. This reconciliation is the crux of the problem that we have to consider.

22. We intend, therefore, to consider these as the problems under report and to examine them from various relevant points of view. The Committee decided that their consideration and suggestions for the reasons set out in the foregoing pages should broadly cover the various units of State Enterprises other than those mentioned as excluded in paragraph 6 above.

23. **Cooperation:** This suggestion does not exclude either close cooperation between units of like character or even interlinking at Ministry level. This subject is dealt with later in these pages. But in our opinion both efficiency and

responsibility are increased by close-knit units (the companies concerned), autonomous or semi-autonomous, which acquire a personality of their own. This consideration is rather important in Government establishments where there is a general tendency for anything set up as small to spread out which would affect adversely the close-knit character and personality of the Unit.

**24. Structure:** Either the provisions of the Company law as it stands or a special Section in the Company Law or an Act for Government Companies would become the Master Charter for the State-owned Companies with adaptations to any particular purpose. Corporations have their own statutes.

**25. Management:** It is obvious that a Manager or Managing Director cannot do everything in any concern or enterprise. There must at the same time, however, be a Head of a concern, on whom ultimate and effective responsibility must squarely rest. He should not only become endowed with a sense of "official" or "constitutional" responsibility, but also be able to feel and develop a sense of autonomy of his concern on the one hand and a sense of what can only be spoken of as a sense of pride and the personality of his concern on the other. The Managing Director and/or Chairman is the Head of a Board of Directors who should, except in the case of very small concerns, all be full-time persons. The Board should work as a team with the Chairman as the leader of the team. (Directorships, therefore, cannot be sinecures nor should persons be selected as Directors on considerations other than those pertaining to the successful administration of the concern. Such a Board may be usually small, between 5 and 9, according to the size and the nature of the concern. Again, while no uniform pattern can be laid down, it may be said that a Board should consist of financial talent, administrative talent, technical skill, representatives of labour and personnel management. Therefore, normally, the Board should consist of a Chairman, the Managing Director (if there is one), someone who is a financial expert, *not drawn from outside the company*, one or more of the senior executives, the chief production executive, a representative, wherever possible, of labour and, often, one of the staff.

**26. Chairman of the Board:** The Board as has been said should work as a team, but the Chairman who has the ultimate responsibility should have the power to overrule the Board or to exercise his discretion, without prior consultation of the Board, if he thinks it is essential in the interests of the Company. He would be well advised to make these occurrences infrequent and not the rule.

In all cases where he does overrule his Board, the Chairman should inform the Minister.

27. **Appointment of Directors:** The managing Director and Chairman should be appointed by Government who are either the sole shareholder or the major shareholder. This is also in conformity with normal company procedure. We do not think there can be any gain-saying of this view. With regard to the rest of the Board of Directors, they should be drawn from the ranks of the company and indeed the promotion to Directorship would be one of the incentives and rewards of competent and loyal service. Normally such appointments would be made by the Minister on the recommendation of the Chairman who, it may be expected, will take his colleagues into confidence. The power of appointment must, however, rest with the Minister. It is the Chairman who has to work with his Board, and it is he who is responsible for results. A sound Chairman would discover who is the most responsible and the most efficient of his executives and the one who has the most team spirit. The Chairman must feel assured himself that the persons he recommends to his Minister are not likely to be subject to any kind of pressure—political, communal or personal—nor should they be persons who will be swayed by prejudices. The Chairman in placing names before the Minister would convey to him his reasons, his estimate of the persons concerned, his hopes and fears which would give the Minister the chance of pointing out to the Chairman the deficiencies, etc. which, in his opinion, would make the Chairman's nominees a bad choice. In appropriate cases where the Minister feels that the recommendation made by the Chairman is quite obviously a bad choice, he might ask for another name. Another way that may be suggested is for the Chairman to submit more than one name to the Minister. The number would vary with the size of the company. Each of the sections within the company or the interests mentioned earlier have to be represented on the Board of Directors. This is the normal procedure which we would recommend. However, it may not be possible to adopt this in regard to the choice of the first Board when Government would have to assume the full burden of selection.

28. **Selection** <sup>for chairman</sup> No hard and fast rule either in regard to the academic, technical or other qualifications, or of age, can be laid down with regard to the selection of the Chairman. It is obvious, however, that he should have maturity of judgement, experience of the particular type of concern or of similar kind of industry, the capacity to work with a team, and a personality

that would enable him to give a lead by his example to both staff and labour. He should normally be beyond acute political or other party or sectional controversies which would make him start with a handicap. It may also be said that normally such a person at the time of his appointment should be between 30 and 50 years of age. This provision is desirable because it should not become the practice that the Chairmanship of Boards is a kind of 'berth' for retiring civil servants or others who are appointed to a post as part of a reward for any services they might have rendered to a political party.

29. **Salaries and Emoluments:** A Managing Director is paid as the Head of the Management. Where there is a Chairman of the Board, perhaps drawn from public life, he may also be paid; where for any reasons he prefers to be a Rupee-a-year man, his responsibilities and functions would be the same as full-time Chairman. A Chairman who has only the trappings of authority is not of much functional value. If he has authority he must also have full responsibility. The other members of the Board of Directors would generally be persons who are employed within the Company in various normal duties and are receiving their salaries by virtue of the positions they hold in the concern and for the work they do in that capacity. Their work as Directors would be in addition to the work they are already doing, and this would apply to those Directors whether drawn from the ranks of labour or as specialists or from the side of the executive. To compensate these Directors for the additional responsibilities placed on them, one might perhaps adopt the practice to pay them either an allowance or a solatium for the additional work and responsibility entrusted to them (or pay Director's fees for meetings only). If a full-time Director or Directors are required, that is to say, who do not do any normal work inside a concern, such cases have to be specially considered by Government.

30. **Tenure:** The Chairman and the managing Director will hold office at the President's "pleasure" as in the case of Judgeships and similar Offices. Their tenure should normally be three years and that of the members of the Board two years. The Members of the Board may be eligible for reappointment for one term or more, while the Chairman or Managing Director may be renewed in their appointments subject to the rules pertaining to the age of superannuation.)

31. With so much function and authority vested in the Chairman and

the Managing Director and ample facilities afforded for incentive as well as for adaptation of procedures, it follows that they cannot be called to account in minor matters and that ample latitude should be given to them. The Board of Directors\* will function according to Company Law or other law under which the concern is established and the Rules made by Government in respect of the concern or according to the bye-laws under the law made by Government and the rules made by the Board itself. A code of conduct would also develop in addition to the rules and bye-laws already mentioned, which would be the unwritten law.

**32. Removal of Directors:** In cases where a Director is found totally wanting in capacity, physical, administrative or technical, or where his demeanour or defects of conduct and character make him an unfit person to hold such office, the Chairman should seek to obtain his resignation and report it to the Minister. He must, however, also have the reserve power to recommend to the Minister the removal of a Director.

**33. Disclosure and Disqualifications:** The Managing Director and the Chairman of the Board of Management should disclose, prior to their appointment, to the Minister:

- (a) Their assets and their income-tax position.
- (b) Their interest of any nature in any commercial or business concern, individual or familywise.
- (c) Their membership of any organisation or their relationship, direct or indirect, with business concerns. This should be mandatory even if such relationship is not gainful.
- (d) Whether their relations or dependents are employed in any business concerns (industry) particularly foreign firms.

34. The same degree of disclosure, perhaps with some modification, is necessary in the case of all Directors and other responsible officers.

35. This recommendation may appear somewhat inquisitorial at first sight. It may, however, be observed that a prudent private businessman would take such precautions although it may not be by way of insistence on

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\*This subject is dealt with more fully in paragraphs 39-41.

a formal disclosure (as is necessary in Government concerns) to ensure that the loyalties of his staff are not divided or that the conduct of the officer concerned is not open to suspicion in these directions.

36. With regard to (d) of para 33 above, it appears to us that this is an important matter. It is well known that firms, more particularly foreign ones, have much patronage to offer, as for example the Petroleum companies. It is also well known that big concerns seek to exercise pressures through the exercise of this patronage. It is not for us to assert or to deny that such pressures are effective or that they lead to unethical conduct. It is necessary to remove the temptation a Director, and more particularly the Managing Director, may be open to, by the offer of career prospects to his relations or dependents.

37. Any failure to make full disclosure either deliberately or through negligence should be regarded as a disqualification, the extent or degree of which must depend upon the individual case.

38. We are against the practice of appointing as Chairmen or Managing Directors of the Boards of Directors, Secretaries or senior officers of Government while they are still functioning in Government. The objections to this practice are :

(a) No civil servant who is selected for the post because of his seniority or competence will be able to devote the time necessary, if he is still a civil servant, to these other duties as well.

(b) The functions and duties of such an official as part of the administrative apparatus and in his own Ministry or as adviser to the Minister in regard to the affairs of the concerns that are under the Ministry place him in a role which requires that he should not be intimately concerned with the Company. From this point of view it will be seen that he may often be the party concerned on whose work or functions he has to judge issues or advise the Minister. We have little doubt in our minds that this practice, whatever may have been the reasons for its adoption, has been unsatisfactory and has adverse effects not only on the concerns but also on the civil service.

(c) It is extremely doubtful if a person can function, with one mental attitude, as, civil servant part of the time and as head of a business concern



for the remainder where different approaches and qualities are required and where he is called upon to work with personnel of a different category.

**39. Board of Management:** We have set out what our views are in regard to the forms of Boards of Management. It has been made clear that membership of these Boards should not be sinecures and, therefore, the distinction between "official" and "non-official" fades out when a non-official becomes a full-time Director. He then becomes official for these purposes though not official in the sense of a civil servant. We are definitely opposed to placing on the Board men who are drawn from public life who will not work in the concerns and who may even have considerable other interests and often rival interests. It is an unhealthy practice.

40. This does not, however, preclude a person, businessman or civil servant or legislator, who has considerable experience, who has genuinely severed his connections with business and other activities and, therefore, from coming into a Government concern to which he is appointed with no encumbrances of this kind, but with the valuable asset of his experience. Barring this exception, it is inadvisable to have men on Boards with power but without responsibility and of divided loyalties.

41. With regard to officials, though we do not see anything inherently wrong in making use of Civil Servants for managerial responsibility in the public sector, we should like to place some limitations on such use, as indicated below:—

- (i) We agree with the view expressed by Mr. Marker, the U.K. expert, that officers holding high posts in the Secretariat should not be appointed as Directors in addition to their own duties.
- (ii) In particular, we entirely endorse his view that neither the Minister nor any of the permanent establishment like the Secretary should take direct responsibility for running such institutions and be answerable for their day-to-day working to Parliament. For one thing, it is not wise or fair to ask them to wear a double cap, that is to say, as a representative of Government and of business. Secondly, the practice violates the basic principle of separation of Secretariat functions from the functions prescribed for business concerns. The purpose of such separation obviously is to provide for an independent

vetting of departmental schemes. Thirdly, the nomination of Secretariat Officers to the Boards of Management of the State Undertakings gives rise to the suspicion or complaint that preferential treatment is being or will be accorded to the State Units.

- (iii) As far as possible, it is advisable to provide that such officers as have to be used for running State Undertakings should be transferred to the Industrial Management Pool. We do not mind their being given some extra remuneration to make the conditions attractive.

This view is supported by the Estimates Committee in its Reports:—

- (i) The present practice of appointing officers from Services either on the Board of Directors or as Managing Directors should be done away with; and in any case, the Secretary or Joint Secretary of Ministries, who are concerned with advising the Minister or the Government on matters of policy, and therefore to keep effective control over the various activities of the Ministry, should not be associated with the day-to-day execution either in connection with State Undertakings or otherwise.

(Recommendation No. 15(iii) in the 9th Report on administrative, financial and other reforms).

- (ii) The Committee are of the view that Secretariat functions of laying down policies and the executive functions implementing them should be clearly demarcated, and that as far as possible Secretariat Officers should not be associated with the actual execution of policies laid down by them so as to enable them to retain an objective outlook. They do not, therefore, consider the arrangement under which the Secretary to the Government is the Chairman of the Board of Directors of a Company set up by the Government to carry out a project on business principles, to be very satisfactory.

(Recommendation No. 16 in the 39th Report on Bharat Electronics).

- (iii) The Committee feel that the presence of the Secretary, Communications Ministry, on the Boards of the I.A.C. and the A.I.I. could only tend to a blurring of responsibilities which should be avoided.

(Recommendation No. 2 in the 41st Report on Air Corporations).

**42. Members of Parliament on Boards:** A more difficult question to decide arises in the matter of Members of Parliament or Legislative Assemblies, and whether they should be members of Boards of Management. The overwhelming weight of considerations must be against it. Such membership even if it carries no emoluments carries much power and patronage. The Member of Parliament concerned is part of the organ of public control and is the exponent of public criticism in Parliament. As a Director or part of a concern's administration he is responsible for the very conduct and affairs which Parliament, and therefore, he, is called upon to examine, criticise and judge. Having specialised and inside knowledge, he can use it in Parliament and elsewhere, when he has disagreements with his colleagues on the Board and wishes to take a line apart from the team of which he is a member. His colleagues who are not members of Parliament like himself can not reply. They are "officials"—employed in State Undertakings. His Parliamentary colleagues are also at a disadvantage because he purports to speak from expert and inside knowledge. The Minister finds himself in a very embarrassing position when the matter is debated in the House.

**43.** There is also the further consideration—for whom does he speak?  
 (1) If he speaks for the industry in Parliament he takes the place of the Minister;  
 (2) if he speaks for the Board, as Managing Director or Chairman, being one himself, then he has greater facilities which other M.Ps do not have;  
 (3) if he turns critic, he places every one including the industry in an adverse position.

**44.** It will be understood that such a Member of Parliament, who is not a member of Government, cannot take over the functions and duties of a Minister. He cannot be a critic for the reasons stated above. Thus, he can neither defend nor criticise, for as Chairman or a Director of the Company concerned he has access to information which others do not have and which he should not use. Therefore, a Member of Parliament is Chairman or even a Director he would disqualify himself for participation in discussions in regard to the concern he is associated with, and there would be severe limitations in regard to his participation in debates on similar concerns or State concerns as a whole. On the other hand, he cannot be obliged to sit in Parliament unconcerned when the debate is on matters of which he has knowledge. This, in effect, would prevent him from functioning fully as a

Member of Parliament. If, on the other hand, he were to use his position and his knowledge, then he places the concern of which he is an active and responsible part and the Board at a great disadvantage as well as in a position of embarrassment. His colleagues and the concern are not represented in Parliament except through the Minister. Conflicts will arise as to whom the Minister represents. In the result, therefore, appointment of Members of Parliament in Corporations is altogether an unhealthy practice and is difficult to justify.

45. **Nomenclature:** It is already common ground that Government companies should not be called "Private" Ltd., and that the word "Private" should be dropped. It is open to question whether the word "Limited" has any applicability to Government concerns as the "Limited" refers to limited liability. Irrespective of the fact that Government concerns should be placed on a par with private business organisations, it would be contrary to public policy for Government to seek to escape liability by limiting it to the capital invested because the reserves of Government are understood and accepted by the public as being behind whatever actual nominal capital may be attributable to the Company. So we suggest that, while other companies under the Company Law should be marked "Limited", Government companies should drop this suffix. The Government company should be called by any suitable name:—

.....Company  
.....Corporation  
.....Enterprise.  
Etc.

46. **Recruitment:** To speak of recruitment in general terms has little meaning. It is obvious that the general labour force of any concern has to be recruited under the law of the country and normally through employment exchanges and the like. In regard to skilled labour also, up to certain levels, recruitment has to be by normal processes of advertising and through Selection Boards inside the concern, as approved by Government. *Ad hoc* arrangements would lead to mal-practices, and even if they do not do so in fact, they are open to suspicions that such exist. A different problem, however, arises in regard to higher levels, specialists and certain technicians. In this case there should be special rules of recruitment. Standards should be set down

before hand and selection boards should be appropriate to levels. A degree of talent spotting should be permissible providing, at the same time, that it does not lead to nepotism. Such machinery may either be inside one concern or in a group of concerns under one Minister if the services can be interchangeable. Recruitment by the Public Service Commission or any counterpart of it is, in general, unsuitable. There is no objection, however, to having a Pool of Management or Technical Skills for which selections may be made (a) by the Public Service Commission assisted by members of a Board of Selection nominated by Government from Management and Technical Directors (b) from names or panels sent up to Government for approval as suitable recruits to the Pool by Corporations. This—(b)—would be an incentive to young executives, particularly junior ones, to do well in their current jobs. In the later case, the Minister concerned, if he approves of the recommendation, would submit the names to the Home Ministry for inclusion under appropriate rules. There should, however, be no binding obligation to restrict recruitment from sources as under (a) and (b) above. The selectees under either (a) or (b) would be eligible but should have no entitlement to selection for posts.

47. What has been said above is that the Pool should be in every sense a reservoir from which people can be drawn. Nomination to the Pool and membership of it proclaims eligibility and that the Pool is fed not merely by one source but by several thus making available the diversity of technical and organisational skill and experience vital to our development. It may be considered in the future whether there cannot be some arrangement whereby Universities, Technical Colleges, etc. could have some machinery for nomination of suitable personnel to such Pools or for consideration by them for probationary appointment.

48. **Appointments:** Though appointment by general recruitment at most levels must be within the competence of the Board of Management subject to the rules, the question arises whether officers above a certain level or any person holding certain responsibilities which involve the national interest should or should not be appointed by Government. Our general view would be that appointments carrying a monthly salary of Rs. 2,000/- and above should be made by Government as at present. The appointment of officers drawing Rs. 3,000/-, or above should receive Cabinet approval as at present.

49. The authority for appointment to any sensitive position must also be reserved to Government. This should most certainly apply to all non-nationals whatever their salaries are.

50. **Promotions: Incentives:** It should be possible for the worker in these establishments to feel that he has got opportunities of advancement, that merit would be rewarded, that his own interests require that he should not merely be a clock watcher. The method of promotion should also be such that it inspires confidence, and that caste and communal considerations and nepotism do not enter into it.

51. It is a matter of common knowledge that even today people prefer a less remunerative job in Government service for many reasons, more particularly stability and the esteem that it carries in the community. Here is one set of incentives.

52. The opportunity which is already provided for by the arrangement suggested of a worker being able in time to become a Director or even a Managing Director is another and a great incentive.

53. Specialists either from outside the industry or from outside the country have often to be brought in. But the worker in the industry should always have the feeling that they are brought in for a special purpose or purposes, not as a super-imposition upon them but in order that such knowledge or talents that we do not immediately possess may become ours shortly and that we do not lag behind in industrial or technical advance.

54. Apart from these general incentives we have to consider other incentives to production as well as morale. It is already part of Congress policy to aim at a piece wage system (payment by results subject to a minimum wage) wherever possible. A liberal system of rewards inside factories and also industrial awards by the community or Government either for production at the workers' level or for administration, should also be instituted. In an increasingly socialist economy the State would be right in considering the institution of industrial awards and decorations. Profit sharing by distribution of bonuses, or by payment of dividends for increased production, economies in costs of production by use of skill in methods of work at a machine, rewarding workers when there is increased production by the utilisation of more modern machinery making for greater production without at the same time

bringing about displacement of workers from the industry, the facility for employees to invest money, the development of cooperatives which would be fair price shops as well as instruments which will save workers from the hands of the money-lender are also among other incentives.

55. We may not, if we are realistic, disregard the place of incentives and rewards in individual effort, while guarding against its evils, such as speeding up unbalanced production, prejudice to health, etc.

56. Nor is it less necessary for these establishments to develop their "personality" and "identity" of their own in which each member sees himself. Reference has been made elsewhere in this report to this matter.

57. By the promotion and growth of various organisations for sports, culture, development, etc. in which workers will generally be distributed according to their own choice, they would acquire a very strong sense of "belongingness" which will advance the sense of national ownership and production as well as their own morale and sense of "self-esteem".

58. There should also be a sense of security in that there should be permanency of tenure or previously accepted periods of contracted service, methods for redress of grievances, appeal against penalties, avenues and channels of representation in regard to merit so that the applicant employee may have a feeling of assurance that he will not be overlooked. These are matters to be provided for in the bye-laws or rules of the Company. In the circumstances, it may be expected that in companies of any size in or the service of a particular group of companies something like a covenanted service would grow up.

59. All this, however, perhaps would not be applicable to the bulk of the skilled and unskilled labour especially in engineering establishments. In this case also, however, the basic principles of recruitment and promotion, namely, fair selection and promotion, should apply as in the previous paragraph. The best incentive that can be provided is payment by results and good conditions of employment. The Government, it need hardly be said, has to be as near as possible the model employer.

60. **Labour Force :** If Government are to be model employers it follows that labour should not only be permitted but even encouraged to become

organised. The machinery for collective bargaining in modern times is not merely for agitation but is the best mechanism for the settlement of disputes. They provide ordered avenues for the expression of labour views. They can assist in greater efficiency and increased production itself. It is through organised labour unions, works committees, etc. that representation of workers in fact would eventuate.

61. **Training and Research :** In appropriate establishments, research facilities and experimentation on projects, should be provided for. Like in most advanced countries research and hobby units should exist in each Government establishment of the kind under consideration, apart from the larger research and development organisation which Government as a whole or the particular industry may promote. Too much stress cannot be laid on this. There is no establishment where with little or no additional cost this cannot be done to a greater or lesser extent.

62. Apart from any particular discoveries or adaptations or development that may result from such efforts, a whole attitude emerges and develops where the nation becomes industrially-minded, recognises that progress is in its own hands. The accepted view, fortunately fast disappearing, that certain things cannot be done or manufactured in this country will disappear. Government should provide in the rules of the concerns that certain allocations can be made for research purposes. Initiative and inventiveness should find rewards where possible, and should not become grounds for inadequately informed criticism or comment by supervisory bodies such as Auditor Committees. These allocations may be a part of the Budget or may be levied as a cess on the product. Income may also be derived by the admission of outsiders to the training facilities in establishments and in other ways. As in the Armed Forces, voluntary development of welfare establishments should grow and should become entitled to Government assistance such as in education, small-scale industries, etc. Nothing can really contribute to the social progress in the neighbourhood so much as the levelling up of the life and habits of members of the establishments themselves. This will come about partly by reasonable wages, security of employment, facilities, and the general promotion of self-respect by the various institutions suggested in these pages.

63. The worker is also a citizen, has the reactions to his environment, and will be conditioned not a little by the general advancement in the country



and by the special advancements that must become inseparable from good conditions in nationalised undertakings.

#### IV

64. **The Ministry.** What then is the function of a Secretary, Additional Secretary or senior officer in a Ministry under which a concern functions? We would suggest that their responsibility is to give informed advice to the Minister or act in the name of the Minister if he has given them such authority. Broadly speaking, the Head of a concern should have a relationship with the Minister somewhat analogous to that of his Secretaries to himself. The Minister in the concerned sphere is, however, generally advised, and functions in the context of the generality of advice which he receives as head of the Ministry. This means, therefore, that the day-to-day affairs of the concern, that is to say, the normal conduct of business, the exercise of initiative, the taking of calculated risks, the planning and even relations with like bodies, are entirely or largely matters in the competence of the Head of the concern who is selected for his ability to fill this role and discharge his duties in conformity with law, the articles of the concern and the instrument of instructions.

65. The Minister is responsible to Parliament and he normally relies on his principal officials as he does indeed in regard to the affairs of his Ministry in other respects, although it is for him to accept or reject advice or to judge whether and to what extent he should be guided by the Administration in any particular matter. This is the normal practice of Parliamentary Governments. The nature and content of these relations tend to vary with Ministers and the nature of the Ministry concerned. There is nothing in this suggestion which is contrary to present practice of Government. No Minister can know or should know every detail that goes on inside his own Ministry. He cannot read every paper nor indeed make every decision. But his officers are expected to know the trend of policy of Government and also the mind of the Minister. Whatever may be the content in fact of particular decisions taken in the Ministry by officials, they are, in constitutional theory, only administrative decisions reflecting or implementing approved policies. The same would apply in regard to the Companies.

66. It is neither possible nor advisable to lay down the occasions or the categories of occasion when a Minister should or should not issue a

“directive” or “special directive”. Obviously if such “directives” are issued the Minister accepts fuller responsibility appropriate to the content of the directive. In any event his overall responsibility to Parliament remains and he cannot divest himself of it under cover of delegation by “directives”. Therefore, it is open to him to issue “directives”, directions, suggestions or warnings or make any other intervention or give advice that he in his competence and in his estimation of his public duties feels he has to.

67. From what has been said above it should not be inferred that the interference of Ministers or indeed of any one outside the concern itself in its day-to-day affairs or even in its planning within general policy will conduce to better working or should be the practice. The foregoing paragraph should be interpreted more as a charter of autonomy rather than as a licence for interference. Such an arrangement will alone ensure a sense of esteem and responsibility in the managements, enable capacities to be judged by results, and instil in Chairmen, Managing Directors and their Boards both confidence and caution.

68. It may well be asked how does the Minister function in the context of his being Head of the Ministry—what is the role of his Secretary or the Administration as a whole?

69. In our system of Government, the Minister is responsible and he makes the decisions. The Secretary to Government in the Ministry or other relevant members of the Administration will function in the ways that are adequate and relevant to enable the Minister to take the necessary and appropriate action—whether it be in regard to his duties in Parliament, to the public or in relations with the Management. In other words, the Secretary to the Government will not give orders or interfere in the affairs of these concerns except as directed, generally or specially, by the Minister for reasons to which general reference has been already made. These reasons may be now set out in full :—

(1) The Heads of these concerns are not Government officials in the same sense as the civil servants and, therefore, they neither take from nor give orders to other civil servants, however, placed they may be.

(2) There is a direct relationship between the Minister and the Head

of a concern analogous though not the same as that between the Minister and the civil servant.

(3) It is inadvisable for the members of the civil service to become involved in the working of business concerns and the financial and other patronage which is often connected with them.

(4) The civil servant, as has been said before, if he is to intervene, has to intervene in matters of detail for which he has neither the time nor the knowledge. Furthermore, such intervention takes away the sense of responsibility, the pride of production and management, and the enthusiasm in the work from responsible heads of management who have been appointed for good and sound reasons.

70. Nothing in the foregoing reasons precludes the Minister's views or directions being communicated by the Ministry in his name and under his orders. It must, however, be clearly understood that it should not become the practice that the taking of such orders becomes a mere formality. The Minister cannot function without some Secretarial instrument in his relations with the company. It would be inadvisable and uneconomical to maintain a separate Secretariat for this purpose. He, therefore, functions through his Ministerial Secretariat.

71. **Relationship between the Minister and the Concerns:** In order that the Minister may be kept informed and be confident that he would be able to answer satisfactorily before Parliament, practices and conventions may be established wherein a monthly or quarterly report is made to the Minister by each of the Concerns under him. The Managing Director or Chairman will, in such ways as he thinks appropriate, keep the Minister informed of the problems concerned. This does not mean that they function by taking orders on administration or running the business or expect to be guided by the Minister or to discuss every day-to-day problem with him.

72. The relationship must be, however, one between the Minister and the Chairman and the appropriate relationship develops when one gains the confidence of the other. In the preparation of the Annual Report of the Company which will be submitted by the Board it is open to the Chairman to discuss relevant issues with the Minister, which again helps him to shape policy, administrative or otherwise, apart from the details of execution.

73. Apart from "directives", the Minister may and will give guidance from experience and from a correct appreciation of the constitutional issues. It does not appear to us the correct procedure to lay down the specific issues on which such guidance may or may not be so issued. The Government alone should, in the exercise of their responsibility; make this decision and also as to what kind of directive or other procedure should be followed. It may range from a letter or talk of caution, a discussion, a reproof, mild or otherwise. It may also be a specific and stringent directive, in which case it should be communicated formally and in writing. On all matters of importance and where the Chairman acts according to the guidance he receives, because it is guidance and not his own decision, he would be well advised to reduce communications to writing and inform the Minister of his understanding of the guidance.

**74. Industrial Relations, Workers' Participation, Welfare, Spread of Education, etc.**

It need hardly be said that Government enterprises have to function in such a way that they do not only achieve the objects set out in their memorandum or terms of reference but also conform, as nearly as possible, to our social objectives and purposes. It is for this reason that we have suggested that the Boards of these bodies should contain representatives of all those engaged in the industry including the working people so that the transition into more democratic control of industrial enterprises may be smoother than otherwise. Similarly, the terms and conditions of employment in industries cannot be on the basis of driving hard bargains with executives or employees or they with the Management. It would also be undesirable for Government concerns to compete for the services of people who may be in some other national concern by offering enticements. It should be possible to make changes as between concerns, in a co-operative way, in the interests of the industry as a whole and the country. A code of conduct should also become accepted as the mode by both sides, labour and management. The code of discipline which the Minister of Labour has happily been able to initiate, laying down the basis of relations and the approach to problems and differences as between employers and employees, is a good starting point for an all-together industrial effort in our new industrial democracy.

75. In concrete terms, these concerns have also to make good and adequate provision and be progressive in matters of housing, education, sani-

tation, welfare, etc. even as they are provided in legislation, but not always made in practice. It should not remain a mere slogan or even an ideal that that the community in which a Government factory or establishment is situated should by reason of its presence not become an area of slum dwellers or of parasites. Ancillary industry should grow around, education should spread and the general tone of the life of the community must be progressively higher. In all this enterprises can directly and even more indirectly contribute.

76. For these reasons the welfare aspects inside the factory and in relation to the families of workers and the community, the introduction by example of such ideas as co-operation, voluntary impetus to education, general or technical, should in varying degrees be consciously promoted in these establishments. We may consider this a little more in detail.

77. In our view, these establishments should plan to provide for the better equipping of their workers and staff so that they will be more efficient, more contented and have a greater pride in their work. Similarly, not by a process of spoon-feeding but by a process of voluntary co-operation, provision should be made for the education of the workers' children, especially as in many cases some of the big establishments, at least in the beginning, may be situated far away from such amenities. It is also to be considered that education does not mean only primary education understood in the usual sense. Under proper inspiration, talent, skill and services will become voluntarily available for the establishment and extension of technical training both for the workers themselves and by night schools, etc. for their children. We should make use of the existing facilities by the use of space that is unused and of non-work time. The Managing Director and the Executives, being the elders of the community, must be expected to give a lead by example. The use of the technical school of the establishment in the unused time for the spread of technical knowledge among the community who may attend as evening students, should be encouraged. These are practical measure which, under proper inspiration, it is possible to take. Equally, each establishment has to plan what kind of small industry related to the neighbourhood and often useful to the factory itself can be encouraged by the staff and workers there. The manufacture of small ancillaries and even components might grow up as a 'satellite' industry to the advantage of production and of higher standards of living for the workers' families and the neighbourhood. Circumstances will

vary, but there always are avenues in this direction, which can be gainfully explored and utilised. This, again, is largely a matter of inspiration and example. It may well provide good living for able-bodied people in the neighbourhood and the industry would live in a contented community which will make for its own economic advancement.

78. Inside the factories the establishment of Works Committees and Production Committees which will advance welfare, contentment as well as production, should gradually become the general practice. This would not take away from the worker such rights as he must have for protecting his interests and against any possible exploitation, or the rights of collective bargaining, but it would be more in accordance with the conditions of our country, the spirit of the times and the special conditions where the worker in a Government establishment is not only an employee, but an owner as well as a citizen. These conceptions are not far-fetched or visionary. They are immediately practicable provided appropriate attitudes and approaches become the practice of these newer establishments.

79. If Government establishments function in this way, and succeed at least in a measure, this will become the accepted way of industry. It will also establish that necessary connection between education and work. One can even visualise a time when higher education and industry have closer relationship than they have now, and working populations, whatever their levels, do take a pride in their mental and moral improvement and Universities on the one hand and workshops on the other acquire a fuller meaning and richer content. Again, this need be no mere dream.

80. Nationalised industries would thus not only have economic significance in its narrow meaning but become socially highly productive and gainful to the community in a fuller sense. We would also like to mention that the Government establishments while they are efficient institutions for the tasks they have on hand should not only be not neglectful of but consciously progress with the advance of technology and methods of production.

81. **Size and character of Units.** While no uniform pattern can be laid down, it may well be said that a particular unit should be more or less unitary, amenable to control by a Managing Director and Chairman of the Board concerned with business (production or services) and should not generally be of

a miscellaneous character unless, of course, in special cases, the concern is specifically established for such purposes, as for example, a general purposes engineering factory or a department store if these should emerge in the future. Wrong conceptions of economy are the often understandable desire on the part of Managements to prune and also the tendency to spread out, to make and 'empire'. Remote control should not lead to or result in lack of attention to detail or cartelisation.

82. The Life Insurance Corporation would, in our view, function more gainfully and effectively if it were not all one unit, but consisted of several which would develop their own character, create healthy competition in performance and results. Such a step would also help to effect economies, given opportunities for more talent to become utilised in positions of higher responsibility, etc.

83. Healthy competition as an incentive to production, which should be restrained from leading to deterioration of quality, or anarchic growth, or cut-throat competition, is an essential to progress and for the industry keeping up standards. It is a great corrective against slackness and inefficiency.

## V

### CO-ORDINATION

84. A 'Central Planning Authority': There can be no doubt that co-ordination is desirable for effecting economy, profiting by exchange of experience and for reasons of public policy. There are, however, some suggestions that have been put forward. One is by the Planning Commission and the rest from other quarters.

85. The first is in relation to the setting up of a Central Planning Authority for public enterprise. We think this is an ill thought out suggestion and its merits are merely superficial. Planning there must be; but it is inadvisable to plan plans out of existence. The Planning Commission's view is as follows:

"There is need also for a Central Board which could give detailed attention and advise the Government in respect of questions of general importance for the public sector as a whole, such as personnel for industrial management, financial and accounting problems, price policies, invest-

ment programmes, etc. The success of public enterprises in the field of industry has great significance for industrial development in the future, since the steady expansion of the public sector is inherent in the development which is now being planned. We, therefore, recommend the early establishment of a single Central Board which will concern itself with large problems of policy, management and organisation for the industrial undertakings of the Central Government."

Such an authority will do little but provide a fifth wheel in the coach, hamper Ministers, damp enthusiasm and initiative in individual concerns and contribute to a considerable amount of discussion in vacuum in the proposed Planning Authority. Here the opinion of Mr. Marker may be cited in support of our view. He has expressed himself strongly in opposition to the idea of the creation of a Central Body with any executive power over the working of the various state undertakings. He felt that such an authority would make the proper functioning of the undertakings difficult by taking away their autonomy. It is argued that this Central Planning Authority is to be without executive power. Such an argument only reinforces our view against it. Without executive power it becomes merely a debating society and its opinions carry neither the burden of responsibility nor the weight of experience. As an advisory body its advice spread over the whole field of industry is bound to be superficial and if it is to be in detail and provide expertise it would have to be so large as to be a parallel organisation to all the concerned Ministries together and also a combination of managerial apparatuses. It will be parallel to Government in the field of industries as a whole.

86. This does not preclude Ministers concerned from referring appropriate matters to the Planning Commission with a view to assisting them to make their own judgements on policy or administration in regard to concerns under their charge. This would be a healthy practice if exercised with care and where relevant and useful.

87. **Advisory Boards:** The other suggestion is in regard to creating Advisory bodies. We see little merit in this except in the sense mentioned earlier of expert technical bodies. Such Advisory bodies can only be drawn on the one hand from industrialists or executives of other concerns or, on the other, from the ranks of public men who can often give little time and do not have the knowledge of industry or of the particular concern. Their advice



would cover the whole field without the experience to back it. Such merit as an Advisory Committee may have and the reasons therefore are largely covered by the suggestions in regard to Ministers and their functions, the character of the concern, the role of the Chairman, the Managing Director and of the Directors, etc. The setting up of a Parliamentary Body with prescribed functions on the one hand and the suggestion about Technical Advice of groups or bodies that may be set up in concerns by the management on the other meets the arguments for the case of so-called Advisory Boards.

88. A third suggestion is that the Chairman and /or the Managing Directors of all Government concerns should have a general body corporate for the whole of them. This suggestion also does not appeal to us. They may have meetings convened by themselves or by a professional Association or Institute as the clearing house of ideas. No one can object to this voluntary effort which is neither executive nor mandatory. In other words, any device intended to exchange experience and thereby profit from it and add to the general availability of it in the working of any concern is to be welcomed. Such limited applicability is one thing; to set up what would be a Super Board is another. It would be a corporation of corporations, almost a parallel "Industrial Government."

89. Coördination has to be largely achieved at the Minister level. The Minister may advise or even instruct consultations between concerns under him. He may advise or instruct consultation with other Government departments through his Ministerial colleagues in relation to concerns under them. There should be Minister to Minister exchanges at their own level and mostly informally and to purpose. There can be no objection to the Chairman and/or Managing Directors of concerns seeking the advice of their opposite numbers in such ways as they think appropriate and which will evoke responses from the other without any suggestion of interference. There can, however, be no uniform practice in regard to these. These are practices that must emerge from experience, and will be progressive. They must be the result of trial and error.

90. We see no objection in the Management appointing advisers or advisory groups for technical or other limited purposes whose advice may be taken or rejected by the management who is responsible for the concern as a whole. The practice of appointing non-officials has not been successful. If

the qualifications and functions of Directors which we have set out are considered valid there is no room for the "non-official" Director if by that term is meant one who remains a "non-official" even after he is a Director. The terms "non-official" and "official" here have not, however, the same connotations as in general use as applicable to civil servants and public representatives.

91. In this connection it may be recalled that Mr. Appleby in his report disapproves the practice in Indian public enterprises of having non-officials on their Boards.

## VI

92. **Financial Control:** If the flexibility necessary for efficient working is to be secured to these concerns it is obvious to us that the financial checks in regard to day-to-day administration should be provided for—

(a) by rules

(b) by internal financial advice.

93. The appointment of a finance officer who is not part of the concern and outside the authority of the Chairman and the Board, while it would be of value as a check, would be largely of such value only. It certainly would not provide the balance required. It would not give the Chairman or Managing Director either the sense of authority or of the confidence required to run a business successfully. He would not be able to formulate or implement policies which accord with his ideas of the direction of the concern or which he considers and are also normally, necessary for success. The question is not only whether such a finance officer will have necessary business experience or even whether he will be conversant with relevant matters in the concern. He is a Government official, conditioned not only procedurally but mentally to the necessarily restrictive attitude of Government. In the case of an internal adviser he becomes part of the team responsible for making a success of the firm and yet he has financial expertise and is appointed to look after finance. It is necessary that such advice conforms to rules and standards of business and ethical procedures. This would also be secured by audit which should be commercial.

94. **Audit:** Audit must be carried out according to a pattern which should be incorporated in the general law governing State-owned Companies

and approved by Parliament. A further precaution may be that such auditing firms can only be drawn from an approved panel. The Auditor-General, however, has responsibilities to Parliament in regard to the expenditure of public monies whether it be for investment as capital or current expenditure in concerns or in regard to other kinds of outgoings from Government sources. The Auditor-General cannot and may not absolve himself from such responsibilities. This, however, is discharged in his report on the Ministry. It is open to him even to say that such and such matters should receive the attention of Government.

95. **Balance Sheets:** The publication of Balance Sheets which should accord with the well laid down standards of Business Administration in modern times would be another safeguard against any misuses or mismanagement of funds. It may also be mentioned that the Board of Management as a whole, with a Finance Director in it, is responsible for the administration of the concern. The question of the rules regarding the preparation and presentation of Balance Sheets is a matter which requires careful consideration. Such rules should of necessity take into account the various matters which are relevant to running a business but which are rightly or wrongly regarded as inappropriate in the business of Government. The Auditor-General should submit a report on the financial working of these Public Undertakings together with his observations on the Balance Sheet.

96. **Financial competence of the Board, the Chairman and the Managing Director:** There obviously have to be limits to autonomy. No hard and fast rules can be set as applicable to every concern. At the same time, delegation of authority and freedom for initiative must be left to those who have to produce results. Similar delegation required in the interests of efficient and speedy transaction of business should be possible at appropriate levels. The pattern of delegation, including the quantum, could be set out as part of the working rules of the company and sanctioned by the Minister beforehand. The ratio between administrative expenditure and total expenditure should receive careful and continual attention.

97. **Profits:** In our view, provision should be made as in business concerns for reserves payable from the profits and for depreciation of assets. Contrary to the usual conception, Government companies should not only pay their way but make legitimate profits. These profits would also provide

a source of payment of bonuses which will help increase in production. Where the Government is the only shareholder, the question of distribution of profits does not arise, but if it is decided to permit the public to invest in shares up to the extent of say 25% of the capital of the company, such profits should be distributed appropriately.

98. State Undertakings may resort to borrowing in the open market subject to conditions laid down by Government in this regard. They may, however, resort to credit accounts and the like.

99. **Public Participation:** The question arises on what basis private investments should be invited or permitted. The reasons and justification for inviting or permitting private investment are—

- (1) it is a way of finding capital for any concern.
- (2) It is a way of mopping up of additional earnings of lower income groups. It is an anti-inflationary measure in a context wherein more money finds its way to smaller people on account of expansion of industry.
- (3) It enables members of the community to participate in profits of Government enterprise or to share its burdens.

100. The question arises whether such shareholders would be entitled to election as Directors. Since Government is the majority shareholder and their nominees alone would succeed if there were elections, the method of appointing Directors as previously proposed need not suffer any alteration. It may be considered whether in making such appointments and in case of companies where 25% of the capital is in the hands of private shareholders, Government should not make a nomination which reflects these interests. The appointment of a Director for this purpose should not, however, be contrary to the general ideas in regard to the appointment of Directors previously stated.

101. As it must be the aim to enable workers to participate not only in management but also as functionaries and owners in a direct way these shares may be either confined or made preferentially available to those engaged in the industry and a Director can then be drawn from the ranks of the investing employees. Such shares should not be permitted to be available except

in prescribed quantum. It is suggested that the quantum of shares available to a single person or group should not exceed Rs. 1,000/-. If accumulation of what may be available is to be prevented, transfers of shares should be strictly regulated to ensure that the purpose of their distribution is not defeated. This has the advantage of preventing speculative practices which may have the effect of shaking confidence in any concern. If shares are transferable, the question of malpractices, of concealed transfers or obtaining consents by unethical means arises. It may be possible to draft the memoranda of concerns in such a way that it is provided that the voting power of each shareholder shall not exceed a prescribed limit. Such shares shall not be available for purchase by private corporations or business concerns.

102. **Taxation.** Government concerns should enjoy no special privileges. They should be able to, and it should be demonstrable that they can, function economically and profitably in fair competition. It would be unfair to private enterprise to give them undue advantages. It would also conduce to slackness in management if such special privileges are provided which gives them a 'cushion'. There is, however, one point of difficulty. The bulk of the shares is held by Government and, therefore, the profits normally would have to be reckoned as for the highest slab of taxation if Government is regarded as one shareholder. To make the comparison with private concerns fair to Government and the citizens as a whole, there would have to be modification of this aspect of taxation in relation to Government Companies.

103. Among the class of investors whose capital contribution may be encouraged or solicited are State Governments, Municipal Corporations and Public Trusts without prejudice to the views set out above in regard to the small investor.

104. **Pricing Policy:** We have stressed in these pages the importance of incentive and healthy competition and emphasized that concerns must be able to stand on their own legs for efficient and proper conduct of business. The question arises how the problems of competition as between two Government concerns of a similar character are to be treated. If as a result of better labour relations more days are worked and costs kept down in certain concerns which are working better, what policy is to be followed in regard to pricing? The same product or similar product from another Government

factory may have incurred larger costs. To sell them at different prices to the public would be undesirable.

105. The consideration that should govern prices appear to be the following. Consumer prices have to be based upon general market prices and other factors as well. The decision as to what economy in cost has to be passed on to the consumer on the one hand or should benefit the tax-payer on the other and the likelihood of non-availabilities and, therefore, of scarcities in the near future has also to be considered. The principle of "what the traffic can bear" has also to be taken into account.

106. On all these matters, if there was only one concern, the management, with some experience and with the development of practices, would be able to make its own decision on price based roughly on the above principles. When any principle or public policy is involved, the Managing Director would, however, do well to keep the Minister fully in the picture. This observation should not be construed as though price fixations, except in cases laid down, are matters where Ministerial approval or direction should be sought.

107. A more difficult question arises, as has been said before, when similar products, owing to the factors referred to in paragraph 104 above or otherwise, come out of different factories at different levels of production costs. It would not be good public policy to charge the consumer different prices for the same commodities unless qualities are very different and it is so stated. While every effort should be made to bring down the cost of production in the slack factory, Government policy should be one of price equalisation through an equalisation fund, or other means. Some of the benefits of the more efficient factory should be passed on to the workers of that factory. This will be an incentive both to the better workers to earn more money and for those in the slack factory to aspire to earn more.

108. **Budget:** In the 20th Report of the Estimates Committee a proposal has been made with regard to budgetary reform. We quote the recommendation. We think that consideration on the lines of the extract is useful:

"The undertakings should prepare a performance and programme statement for the budget year together with the previous year's statement and it should be made available to Parliament at the time of the annual budget. Further, these bodies might also be

encouraged to prepare business-type budgets which would be of use to Parliament at the time of the Budget discussion. In addition, the latest accounts and balance-sheets as well as the annual reports should also be made available to Parliament at the same time.

"It has been suggested earlier that along with the annual budget a separate volume for each Ministry and Department should be brought out incorporating the budget and portions from Explanatory Memoranda and Annual Reports, as further improved. This volume should also include a separate chapter containing information and documents as mentioned in para 25 in respect of all undertakings which are related to the Ministry concerned. In addition, it would be desirable to bring out a consolidated volume containing the documents mentioned earlier for all the statutory bodies and private limited companies of Government containing an appreciation of their working and their net result on the budget, so that their impact on the national economy could be appreciated.

"Further, to facilitate the understanding of all the activities of the public enterprises it would be desirable that they should have a common financial year; namely, the same as that of the Government."

## VII

### ACCOUNTABILITY

109. We may now consider problems under accountability and the responsibility of the Minister to Parliament and of Parliament to the people. The Minister, as we have said before, is accountable under the general law and practices of the country for anything that Parliament chooses to ask him to account. The normal practice of making such accountability real is provided for by the many means open to Members of Parliament and by the usual methods of the expression of public opinion. These include questions, debates on any issue under normal Parliamentary procedures in the discretion of the Speaker, the debate on the grants concerned, and in exceptional cases, in the discretion of the Speaker, by motions of adjournment, censure, confidence, etc. It is understood that these normal procedures are not intended for dealing with matters of day-to-day administration of autonomous bodies even as a Minister himself does not interfere in this way. In a Parliamentary Government these

matters have to be left to conventions and to the authority of the Speaker. There can be no special provision apart from the general practice and rules which govern Parliamentary business and procedures.

✓ **110. Committee of Parliament:** Limitations in the above respect as well as the general expressed opinion on this matter in different ways in Parliament and elsewhere, call upon us to make the suggestion that a Committee of Parliament should be established in regard to Companies. For the above, and also for the reason that there should be a group of Members in Parliament who make it their business on the basis of fact and knowledge to be informed about this problem, and also because the normal procedures mentioned in paragraph 109 above are not appropriate and often inadequate to bring to bear informed Parliamentary criticism in respect of any concern or any issue, our minds have been directed to the question of the Parliamentary organ required.

✓ 111. In this connection attention may be drawn to the letter of the former Speaker (Shri G.V. Mavlankar) which we have quoted in extenso at the beginning of this Report. It forms a useful guide. A Committee of Parliament should be established.

✓ 112. The Sub-Committee accept the essentials of the proposal contained in the late Speaker's letter and are of the view that the recommendations of the Rules Committee referred to therein for the constitution of a separate Committee may be considered and accepted.

113. The Members of such a Committee will be elected by Parliament much in the same way as the Public Accounts Committee and the Estimates Committee are elected. These two Committees, therefore, will cease to perform their present functions in regard to the working of the concerns that come under the proposed Committee.

✓ 114. We look forward to the situation where this Committee, while by no means being an expert Committee, (such is not the intention), would be a well-informed Committee, informed of all the circumstances in which the concerns function. The purpose of our recommendation would be adversely affected if either the Committee of Parliament becomes imbued with the feeling that it is a fault-finding body or that it is a Super Board of Management. At the same time, there cannot be any fettering of its judgment and the expression of its views in good parliamentary tradition. The Committee would



also, no doubt, bear in mind that any public expressions of views which are intended to correct errors or to provide greater incentives in respect of any concern or all of them are not of such a character as would have the opposite result of lowering the concern in public estimation, or affect our credit or capacity to be well regarded abroad.

115. Parliamentary control will become more real with the knowledge that Parliament will be concerned more with policy and with the advancement of the objectives of production as a whole and that it would take a long term view rather than concern itself with the minutiae of administration. It would not be the intention of Parliament that its control should be, or should appear as, a challenge or hindrance to the initiative of the man at the bench or at the desk. Parliament would desire its control to be real and gainful. The knowledge in the public mind and, even more, of those immediately concerned that Parliament is jealous of the standards of public conduct, which includes industrial conduct and that any serious breaches of them irrespective of the immediate content involved would attract Parliamentary attention is at once a wholesome corrective and an inspiration.

116. One of the more important factors in Parliamentary intervention being at the optimum is that Parliament should be well informed. It has been said that "a well informed Parliament would choose to interfere as little as possible in their (nationalised undertakings) day-to-day working". The proposed Committee would be the new machinery for this purpose. Its composition should be the concern of Parliament not only from the point of view of immediate political advantage or of patronage but in terms of long-term vision and in the hope that this Committee would lay down a tempo both of the required vigilance and the restraint and take itself seriously. It may be hoped that Parliament by its own approach will also encourage both initiative and long term planning in Government concerns. In regard to both these, Government undertakings are normally backward or very shy.

117. **Debate:** We propose that a period of...days should be set apart after the budget session for the debate of the Annual Reports of the concerns and the report of the Committee as well as any references to it in any other relevant body. It is not suggested that every concern should be debated or that they should not. It would largely depend upon the report of the proposed Committee and the working of the concerns themselves. It has been suggested

that the Committee in its informed judgment might suggest that the debate may be on one or more concerns at any session or on any issue that has become a matter of increased public concern. Any such recommendation by the Committee would, however, have to take into account (a) Ministerial responsibility, and (b) freedom of debate by Parliament. The practice in regard to the budget debate of allocating days to concerns of any particular Ministry may perhaps be usefully followed. The constitutional practice of "cut" motions cannot apply in this case. The more appropriate method would be that the Prime Minister moves formally that "the Annual Reports of concerns . . . and of the (Companies) Committee of Parliament and of connected papers be taken into consideration."

118. It appears to us, however, that situations may arise in which, in the public interest, Government after mature consideration may not wish the whole or any part of a particular report to be placed on the Table of the House for among others, some of the reasons mentioned below;

- (1) The Report may contain material which under some commitment under private international law may not be disclosed. (There may be an agreement with any foreign purveyor of goods and services to the company but the terms are not to be disclosed.).
- (2) The laying of the Report (disclosure) may involve some impropriety in regard to other countries and Governments on which our Government alone can be the judge about the appropriateness of disclosure.
- (3) It may be adverse to the business interests and national gains to reveal some of the information which may well refer to things that are in the process of development and premature disclosure might well affect its development adversely, if not wreck it.

119. It must be plain to everyone that no Government will exercise this right of non-disclosure except for good and sound reasons, for they must take the responsibility of such a decision and the consequences.

120. Parliament and the conventions that grew may be trusted by and large to make the procedures contemplated in the proposals we have made in these pages adequate and practicable.

## VIII

121. We have set out above for the consideration of the Party what we think are the main considerations which come within the scope of our enquiry. We have laid the main stress on the two basic problems, (1) Efficiency, and (2) Accountability.

122. We have also considered these problems in relation to national development as a whole, both in the field of technical advancement and the addition to national wealth.

123. We have indicated that State Undertakings should be able to stand on their own legs and be enabled to do so by the adaptation of procedures and that flexibility and initiative should be retained with the necessary provisions against mismanagement or laxity.

124. We also think that the structure and the management and the policy in regard to State Undertakings should be such that public opinion on the one hand and the workers and the management in factories on the other regard them with patriotic fervour and have a sense both of ownership and pride.

125. We think that they should add to the national revenue so as to assist in the Third Five-Year Plan. We think it possible because there is no reason to consider that they cannot make profits where private enterprise can. It is not too well known that some of our State Enterprises show profit already.

126. While we express this above view with hope and confidence, it cannot be too emphatically stated that if these concerns are tied up in procedures, the management lacking in confidence, and enquiries become inquisitorial, then production and quality will be affected.

127. In writing this Report we have taken all these aspects into consideration and sought to provide some answers to the problem and reconciliation of the apparent conflict between Efficiency and Accountability.

128. We submit all the above suggestions, some of which are already part of practice as well worth consideration for adoption.

## APPENDIX 'A'

### **(a) Banks**

1. The Reserve Bank of India
2. The State Bank of India

### **(b) Statutory Corporations**

1. The Life Insurance Corporation
2. Damodar Valley Corporation
3. Central Warehousing Corporation
4. Industrial Finance Corporation
5. Rehabilitation Finance Corporation
6. Indian Airlines Corporation
7. Air India International

### **(c) Control Boards**

1. Bhakara Nangal Project
2. Chambal Valley
3. Nagarjuna Sagar

### **(d) Commodity Boards**

1. Coffee Board
2. Tea Board
3. Coir Board
4. Central Silk Board
5. Rubber Board

### **(e) Boards with Commercial Functions**

1. All India Handicrafts Board
2. All India Handloom Board

**(f) Limited Companies (Private)**

*. Central Government Undertakings*

1. Ashoka Hotels Ltd.
2. Bharat Electronics (P) Ltd.
3. Eastern Shipping Corporation Ltd.
4. Export Risks Insurance Corporation (P) Ltd.
5. Government Telephones Board (P) Ltd.
6. Heavy Electricals (P) Ltd.
7. Hindustan Aircraft (P) Ltd.
8. Hindustan Anti-Biotics (P) Ltd.
9. Hindustan Cables (P) Ltd.
10. Hindustan Housing Factory (P) Ltd.
11. Hindustan Insecticides (P) Ltd.
12. Hindustan Machine Tools (P) Ltd.
13. Hindustan Shipyard (P) Ltd.
14. Hindustan Steel (P) Ltd.
15. Indian Handicraft Development Corporation.
16. Indian Refineries.
17. Indian Telephone Industries (P) Ltd.
18. Nahan Foundry (P) Ltd.
19. Nangal Fertilisers and Chemicals (P) Ltd.
20. National Coal Development Corporation (P) Ltd.
21. National Industrial Development Corporation (P) Ltd.
22. National Instruments (P) Ltd.
23. National Research Development Corporation.
24. National Small Industries Corporation (P) Ltd.
25. Neyveli Lignite Corporation (P) Ltd.
26. Rehabilitation Housing Corporation Ltd.
27. Sindri Fertilisers and Chemicals (P) Ltd.
28. State Trading Corporation of India (P) Ltd.
29. Sultania Cotton Manufacturing Co.
30. Western Shipping Corporation (P) Ltd.

## II. *Combined Undertakings (Centre and State).*

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|--|---|
| 1. Indian Rare Earths (P) Ltd.                         | .. Centre and Kerala                                      |
| 2. Kulu Valley Transport (P) Ltd.                      | .. Centre and Punjab                                      |
| 3. National Projects Construction Corporation (P) Ltd. | .. Centre, M.P., Rajasthan, Bihar<br>.. J & K and Kerala. |
| 4. Orissa Mining Corporation (P) Ltd.                  | .. Centre and Orissa                                      |
| 5. Travancore Minerals (P) Ltd.                        | .. Centre and Kerala                                      |

